

110TH CONGRESS
1ST SESSION

H. R. 1882

To amend the Internal Revenue Code of 1986 to authorize agricultural producers to establish and contribute to tax-exempt farm risk management accounts in lieu of obtaining federally subsidized crop insurance or noninsured crop assistance, to provide for contributions to such accounts by the Secretary of Agriculture, to specify the situations in which amounts may be paid to producers from such accounts, and to limit the total amount of such distributions to a producer during a taxable year, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

APRIL 17, 2007

Mr. EVERETT (for himself, Mr. BONNER, Mr. ROGERS of Alabama, Mr. CRAMER, and Mr. BACHUS) introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committee on Agriculture, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

To amend the Internal Revenue Code of 1986 to authorize agricultural producers to establish and contribute to tax-exempt farm risk management accounts in lieu of obtaining federally subsidized crop insurance or noninsured crop assistance, to provide for contributions to such accounts by the Secretary of Agriculture, to specify the situations in which amounts may be paid to producers from such accounts, and to limit the total amount of

such distributions to a producer during a taxable year,
and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Farm Risk Manage-
5 ment Act of 2007”.

6 **SEC. 2. FARM RISK MANAGEMENT ACCOUNTS.**

7 (a) IN GENERAL.—Part VII of subchapter B of chap-
8 ter 1 of the Internal Revenue Code of 1986 (relating to
9 additional itemized deductions for individuals) is amended
10 by redesignating section 224 as section 225 and by insert-
11 ing after section 223 the following new section:

12 **“SEC. 224. FARM RISK MANAGEMENT ACCOUNTS.**

13 “(a) DEDUCTION ALLOWED.—In the case of a quali-
14 fied farmer, there shall be allowed as a deduction for the
15 taxable year an amount equal to the aggregate amount
16 paid in cash during such taxable year by or on behalf of
17 such individual to a farm risk management account of
18 such individual.

19 “(b) MINIMUM CONTRIBUTION REQUIREMENT.—A
20 deduction shall not be allowed under subsection (a) for
21 the taxable year with respect to an individual if, during
22 such taxable year, the aggregate amount contributed by
23 such individual to farm risk management accounts of the
24 individual is not equal to at least 2 percent of the individ-

1 ual’s 3-year average of income derived from farming or
2 ranching.

3 “(c) ACCOUNT BALANCE LIMITATION.—A deduction
4 shall not be allowed under subsection (a) with respect to
5 any portion of a contribution to a farm risk management
6 account of an individual if such contribution would result
7 in the sum of the balances in all such accounts of such
8 individual to exceed 150 percent of the individual’s 3-year
9 average of income derived from farming or ranching.

10 “(d) QUALIFIED FARMER.—For purposes of this sec-
11 tion, the term ‘qualified farmer’ means, with respect to
12 any taxable year, any individual who, during such year—

13 “(1) was engaged in the trade or business of
14 farming or ranching,

15 “(2) has in effect an agreement with the Sec-
16 retary of Agriculture to accept contributions under
17 this section in lieu of—

18 “(A) receiving, after the expiration of any
19 transition period applicable to the individual
20 under subsection (g)(2), any Federal subsidy
21 toward the premium of any crop insurance pol-
22 icy, or

23 “(B) obtaining noninsured crop assistance
24 under section 196 of the Agricultural Market
25 Transition Act (7 U.S.C. 7333), and

1 “(3) does not have any federally subsidized crop
2 insurance policy, except during transition periods ap-
3 plicable to the individual under subsection (g)(2).

4 “(e) FARM RISK MANAGEMENT ACCOUNT.—For pur-
5 poses of this section—

6 “(1) IN GENERAL.—The term ‘farm risk man-
7 agement account’ means a trust created or orga-
8 nized in the United States as a farm risk manage-
9 ment account exclusively for the purpose of making
10 qualified distributions, but only if the written gov-
11 erning instrument creating the trust meets the fol-
12 lowing requirements:

13 “(A) No contribution will be accepted un-
14 less it is in cash.

15 “(B) The trustee is a bank (as defined in
16 section 408(n)) or another person who dem-
17 onstrates to the satisfaction of the Secretary
18 that the manner in which such person will ad-
19 minister the trust will be consistent with the re-
20 quirements of this section.

21 “(C) The assets of the trust will be in-
22 vested in securities issued by the United States
23 Treasury or in such other low-risk interest-
24 bearing securities as are approved by the Sec-
25 retary.

1 “(D) The assets of the trust will not be
2 commingled with other property except in a
3 common trust fund or common investment
4 fund.

5 “(E) The interest of an individual in the
6 balance in his account is nonforfeitable.

7 “(2) QUALIFIED DISTRIBUTION.—The term
8 ‘qualified distribution’ means any amount paid from
9 a farm risk management account to the account ben-
10 eficiary to the extent that such amount when added
11 to all other amounts paid from such accounts to
12 such beneficiary during the taxable year (other than
13 rollover contributions) does not exceed the excess (if
14 any) of—

15 “(A) 80 percent of such beneficiary’s 3-
16 year average of income derived from farming or
17 ranching, over

18 “(B) such beneficiary’s gross income de-
19 rived from farming or ranching for the taxable
20 year.

21 “(3) 3-YEAR AVERAGE OF INCOME DERIVED
22 FROM FARMING OR RANCHING.—The term ‘3-year
23 average of income derived from farming or ranching’
24 means, with respect to any individual—

1 “(A) the sum of the individual’s gross in-
2 come derived from farming or ranching for the
3 taxable year and the 2 preceding taxable years,
4 divided by

5 “(B) the number of taxable years taken
6 into account under clause (i) during which such
7 individual was engaged in the trade or business
8 of farming or ranching.

9 “(4) ACCOUNT BENEFICIARY.—The term ‘ac-
10 count beneficiary’ means the individual on whose be-
11 half the farm risk management account was estab-
12 lished.

13 “(5) SPECIAL RULES.—

14 “(A) FEDERAL CONTRIBUTIONS.—For
15 purposes of this title, any amount paid to a
16 farm risk management account by the Secretary
17 of Agriculture under subsection (g) shall be in-
18 cluded in the account beneficiary’s gross income
19 in the taxable year for which the amount was
20 contributed, whether or not a deduction for
21 such payment is allowable under this section to
22 the beneficiary.

23 “(B) OTHER RULES.—Rules similar to the
24 following rules shall apply for purposes of this
25 section:

1 “(i) Section 219(d)(2) (relating to no
2 deduction for rollovers).

3 “(ii) Section 219(f)(3) (relating to
4 time when contributions deemed made).

5 “(iii) Section 408(g) (relating to com-
6 munity property laws).

7 “(iv) Section 408(h) (relating to cus-
8 todial accounts).

9 “(f) TAX TREATMENT OF ACCOUNTS.—

10 “(1) IN GENERAL.—A farm risk management
11 account is exempt from taxation under this subtitle
12 unless such account has ceased to be a farm risk
13 management account. Notwithstanding the pre-
14 ceding sentence, any such account is subject to the
15 taxes imposed by section 511 (relating to imposition
16 of tax on unrelated business income of charitable,
17 etc. organizations).

18 “(2) TERMINATION OF ACCOUNTS.—If the ac-
19 count beneficiary ceases to engage in the trade or
20 business of farming or ranching, such trade or busi-
21 ness becomes covered under any crop insurance pol-
22 icy for which a premium subsidy is paid by the Sec-
23 retary of Agriculture, or the account beneficiary
24 seeks noninsured crop assistance under section 196

1 of the Agricultural Market Transition Act (7 U.S.C.
2 7333)—

3 “(A) all farm risk management accounts of
4 such individual shall cease to be such accounts,
5 and

6 “(B) the balance of all such accounts shall
7 be treated as—

8 “(i) distributed to such individual,
9 and

10 “(ii) not paid in a qualified distribu-
11 tion.

12 “(g) FEDERAL CONTRIBUTION TO ACCOUNTS.—

13 “(1) CONTRIBUTIONS REQUIRED.—Using
14 amounts in the insurance fund established under
15 section 516(c) of the Federal Crop Insurance Act (7
16 U.S.C. 1516(c)), the Secretary of Agriculture shall
17 match the contributions made for a taxable year to
18 farm risk management accounts of an individual
19 who has entered into the agreement with the Sec-
20 retary required by subsection (d)(2) in an aggregate
21 amount equal to 2 percent of the individual’s 3-year
22 average of income derived from farming or ranching.

23 “(2) TRANSITION PERIODS.—Notwithstanding
24 paragraph (1), during the first 3 taxable years for
25 which the Secretary of Agriculture makes contribu-

1 tions under such paragraph to farm risk manage-
2 ment accounts of an individual and during the first
3 3 taxable years following any taxable year during
4 which there occurs a qualified distribution from a
5 farm risk management account of the individual, the
6 amount contributed by the Secretary may not ex-
7 ceed—

8 “(A) for the first taxable year, 25 percent
9 of the amount the Secretary would otherwise
10 contribute under paragraph (1) for that taxable
11 year,

12 “(B) for the second taxable year, 50 per-
13 cent of the amount the Secretary would other-
14 wise contribute under paragraph (1) for that
15 taxable year, and

16 “(C) for the third taxable year, 75 percent
17 of the amount the Secretary would otherwise
18 contribute under paragraph (1) for that taxable
19 year.

20 “(3) CROP INSURANCE COVERAGE.—During
21 any transition period applicable to an individual
22 under paragraph (1), the individual shall procure, as
23 a condition of receiving contributions under this sub-
24 section, at least catastrophic risk protection provided
25 under section 508(b) of the Federal Crop Insurance

1 Act (7 U.S.C. 1508(b)). During this period, the indi-
2 vidual would be covered with any claim at the same
3 level of coverage purchased, but subject to the condi-
4 tion that any claim would first use amounts in the
5 farm risk management accounts of an individual be-
6 fore conventional crop insurance would make any
7 payment, if necessary.

8 “(h) TAX TREATMENT OF DISTRIBUTIONS.—

9 “(1) IN GENERAL.—Any amount paid or dis-
10 tributed out of a farm risk management account
11 (other than a rollover contribution described in para-
12 graph (4)) shall be included in gross income.

13 “(2) ADDITIONAL TAX ON NON-QUALIFIED DIS-
14 TRIBUTIONS.—

15 “(A) IN GENERAL.—The tax imposed by
16 this chapter on the account beneficiary for any
17 taxable year in which there is a payment or dis-
18 tribution from a farm risk management account
19 of such beneficiary which is not a qualified dis-
20 tribution shall be increased by 15 percent of the
21 amount of such payment or distribution which
22 is not a qualified distribution.

23 “(B) EXCEPTION FOR DISABILITY OR
24 DEATH.—Subparagraph (A) shall not apply if
25 the payment or distribution is made after the

1 account beneficiary becomes disabled within the
2 meaning of section 72(m)(7) or dies.

3 “(3) EXCESS CONTRIBUTIONS RETURNED BE-
4 FORE DUE DATE OF RETURN.—

5 “(A) IN GENERAL.—If any excess con-
6 tribution is contributed for a taxable year to a
7 farm risk management account of an individual,
8 paragraph (2) shall not apply to distributions
9 from the farm risk management accounts of
10 such individual (to the extent such distributions
11 do not exceed the aggregate excess contribu-
12 tions to all such accounts of such individual for
13 such year) if—

14 “(i) such distribution is received by
15 the individual on or before the last day
16 prescribed by law (including extensions of
17 time) for filing such individual’s return for
18 such taxable year, and

19 “(ii) such distribution is accompanied
20 by the amount of net income attributable
21 to such excess contribution.

22 Any net income described in clause (ii) shall be
23 included in the gross income of the individual
24 for the taxable year in which it is received.

1 “(B) EXCESS CONTRIBUTION.—For pur-
2 poses of subparagraph (A), the term ‘excess
3 contribution’ means any contribution (other
4 than a rollover contribution) which is not de-
5 ductible under this section.

6 “(4) ROLLOVER CONTRIBUTION.—An amount is
7 described in this paragraph as a rollover contribu-
8 tion if it meets the requirements of subparagraphs
9 (A) and (B).

10 “(A) IN GENERAL.—For purposes of this
11 section, any amount paid or distributed from a
12 farm risk management account to the account
13 beneficiary shall be treated as a qualified dis-
14 tribution to the extent the amount received is
15 paid into a farm risk management account for
16 the benefit of such beneficiary not later than
17 the 60th day after the day on which the bene-
18 ficiary receives the payment or distribution.

19 “(B) LIMITATION.—This paragraph shall
20 not apply to any amount described in subpara-
21 graph (A) received by an individual from a
22 farm risk management account if, at any time
23 during the 1-year period ending on the day of
24 such receipt, such individual received any other
25 amount described in subparagraph (A) from a

1 farm risk management account which was not
2 included in the individual's gross income be-
3 cause of the application of this paragraph.

4 “(5) TRANSFER OF ACCOUNT INCIDENT TO DI-
5 VORCE.—The transfer of an individual's interest in
6 a farm risk management account to an individual's
7 spouse or former spouse under a divorce or separa-
8 tion instrument described in subparagraph (A) of
9 section 71(b)(2) shall not be considered a taxable
10 transfer made by such individual notwithstanding
11 any other provision of this subtitle, and such interest
12 shall, after such transfer, be treated as a farm risk
13 management account with respect to which such
14 spouse is the account beneficiary.

15 “(6) TREATMENT AFTER DEATH OF ACCOUNT
16 BENEFICIARY.—

17 “(A) TREATMENT IF DESIGNATED BENE-
18 FICIARY IS SPOUSE.—If the account bene-
19 ficiary's surviving spouse acquires such bene-
20 ficiary's interest in a farm risk management ac-
21 count by reason of being the designated bene-
22 ficiary of such account at the death of the ac-
23 count beneficiary, such farm risk management
24 account shall be treated as if the spouse were
25 the account beneficiary.

1 “(B) OTHER CASES.—

2 “(i) IN GENERAL.—If, by reason of
3 the death of the account beneficiary, any
4 person acquires the account beneficiary’s
5 interest in a farm risk management ac-
6 count in a case to which subparagraph (A)
7 does not apply—

8 “(I) such account shall cease to
9 be a farm risk management account
10 as of the date of death, and

11 “(II) an amount equal to the fair
12 market value of the assets in such ac-
13 count on such date shall be included
14 if such person is not the estate of
15 such beneficiary, in such person’s
16 gross income for the taxable year
17 which includes such date, or if such
18 person is the estate of such bene-
19 ficiary, in such beneficiary’s gross in-
20 come for the last taxable year of such
21 beneficiary.

22 “(ii) DEDUCTION FOR ESTATE
23 TAXES.—An appropriate deduction shall be
24 allowed under section 691(c) to any person
25 (other than the decedent or the decedent’s

1 spouse) with respect to amounts included
 2 in gross income under clause (i) by such
 3 person.

4 “(i) REPORTS.—The Secretary may require the trust-
 5 ee of a farm risk management account to make such re-
 6 ports regarding such account to the Secretary and to the
 7 account beneficiary with respect to contributions, distribu-
 8 tions, and such other matters as the Secretary determines
 9 appropriate. The reports required by this subsection shall
 10 be filed at such time and in such manner and furnished
 11 to such individuals at such time and in such manner as
 12 may be required by the Secretary.”.

13 (b) DEDUCTION ALLOWED WHETHER OR NOT INDIVIDUAL
 14 ITEMIZES OTHER DEDUCTIONS.—Subsection (a)
 15 of section 62 of such Code is amended by inserting after
 16 paragraph (20) the following new paragraph:

17 “(21) FARM RISK MANAGEMENT ACCOUNTS.—
 18 The deduction allowed by section 224.”.

19 (c) TAX ON EXCESS CONTRIBUTIONS.—Section 4973
 20 of such Code (relating to tax on excess contributions to
 21 certain tax-favored accounts and annuities) is amended—

22 (1) by striking “or” at the end of subsection
 23 (a)(4), by inserting “or” at the end of subsection
 24 (a)(5), and by inserting after subsection (a)(5) the
 25 following new paragraph:

1 “(6) a farm risk management account (within
2 the meaning of section 224(e)),”, and

3 (2) by adding at the end the following new sub-
4 section:

5 “(h) EXCESS CONTRIBUTIONS TO FARM RISK MAN-
6 AGEMENT ACCOUNTS.—For purposes of this section, in
7 the case of farm risk management accounts (within the
8 meaning of section 224(e)), the term ‘excess contribution’
9 means the sum of—

10 “(1) the aggregate amount contributed for the
11 taxable year to the accounts (other than rollover
12 contributions described in section 224(h)(4)) which
13 is not allowable as a deduction under section 224 for
14 such year, and

15 “(2) the amount determined under this sub-
16 section for the preceding taxable year, reduced by
17 the sum of—

18 “(A) the distributions out of the accounts
19 with respect to which additional tax was im-
20 posed under section 224(h)(2), and

21 “(B) the excess (if any) of—

22 “(i) the maximum amount allowable
23 as a deduction under section 224(c) for the
24 taxable year, over

1 “(ii) the amount contributed to the
2 accounts for the taxable year.

3 For purposes of this subsection, any contribution
4 which is distributed out of the farm risk manage-
5 ment account in a distribution to which section
6 224(h)(3) applies shall be treated as an amount not
7 contributed.”.

8 (d) TAX ON PROHIBITED TRANSACTIONS.—

9 (1) Section 4975(e) of such Code (relating to
10 tax on prohibited transactions) is amended by add-
11 ing at the end the following new paragraph:

12 “(7) SPECIAL RULE FOR FARM RISK MANAGE-
13 MENT ACCOUNTS.—An individual for whose benefit a
14 farm risk management account (within the meaning
15 of section 224(e)) is established shall be exempt
16 from the tax imposed by this section with respect to
17 any transaction concerning such account (which
18 would otherwise be taxable under this section) if,
19 with respect to such transaction, the account ceases
20 to be a farm risk management account by reason of
21 the application of section 224(f)(2) to such ac-
22 count.”.

23 (2) Section 4975(e)(1) of such Code is amended
24 by redesignating subparagraphs (F) and (G) as sub-
25 paragraphs (G) and (H), respectively, and by insert-

1 ing after subparagraph (E) the following new sub-
2 paragraph:

3 “(F) a farm risk management account de-
4 scribed in section 224(e),”.

5 (e) FAILURE TO PROVIDE REPORTS ON FARM RISK
6 MANAGEMENT ACCOUNTS.—Section 6693(a)(2) of such
7 Code (relating to reports) is amended by redesignating
8 subparagraphs (D) and (E) as subparagraphs (E) and
9 (F), respectively, and by inserting after subparagraph (C)
10 the following new subparagraph:

11 “(D) section 224(i) (relating to farm risk
12 management accounts),”.

13 (f) CLERICAL AMENDMENT.—The table of sections
14 for part VII of subchapter B of chapter 1 of such Code
15 is amended by striking the last item and inserting the fol-
16 lowing:

“Sec. 224. Farm risk management accounts.
“Sec. 225. Cross reference.”.

17 (g) CONFORMING AMENDMENTS TO FEDERAL CROP
18 INSURANCE ACT.—

19 (1) PAYMENT OF PORTION OF PREMIUM BY
20 FEDERAL CROP INSURANCE CORPORATION.—Section
21 508(e) of the Federal Crop Insurance Act (7 U.S.C.
22 1508(e)) is amended by adding at the end the fol-
23 lowing new paragraph:

1 “(6) TRANSITION TO FARM RISK MANAGEMENT
2 ACCOUNTS.—If a producer enters into an agreement
3 under section 224 of the Internal Revenue Code of
4 1986 to forgo any Federal subsidy toward the pre-
5 mium of any crop insurance policy in exchange for
6 contributions by the Secretary to a farm risk man-
7 agement account of the producer, then, in connec-
8 tion with the purchase of any crop insurance policy
9 during the first 3 taxable years for which the Sec-
10 retary makes contributions under subsection (g) of
11 such section to a farm risk management account of
12 the producer, the amount of the premium to be paid
13 by the Corporation under this subsection shall be
14 equal to—

15 “(A) for the first taxable year, 75 percent
16 of the amount of the premium that would oth-
17 erwise be paid by the Corporation under this
18 subsection;

19 “(B) for the second taxable year, 50 per-
20 cent of the amount of the premium that would
21 otherwise be paid by the Corporation under this
22 subsection; and

23 “(C) for the third taxable year, 25 percent
24 of the amount of the premium that would oth-

1 erwise be paid by the Corporation under this
2 subsection.”.

3 (2) FUNDING SOURCE.—Section 516(b) of such
4 Act (7 U.S.C. 1516(b)) is amended by adding at the
5 end the following new paragraph:

6 “(3) CONTRIBUTIONS TO FARM RISK MANAGE-
7 MENT ACCOUNTS.—The Secretary shall use the in-
8 surance fund established under subsection (c) to
9 make required contributions to farm risk manage-
10 ment accounts established under section 224 of the
11 Internal Revenue Code of 1986.”.

12 (h) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to taxable years ending after the
14 date of the enactment of this Act.

○